

Agenda Date: September 29, 2004  
Item Numbers: A1 and A2

**Dockets:** UG-041565 and UG-041566

Company Name: Puget Sound Energy, Inc.

Staff: Joanna Huang, Regulatory Analyst

**Recommendation:**

Allow the tariffs filed in Dockets UG-041565 and UG-041566 to become effective October 1, 2004, by operation of law.

**Background:**

On August 31, 2004, Puget Sound Energy, Inc. ("PSE" or "Company") filed revisions to its Purchase Gas Adjustment (PGA) and Gas Cost Deferral Amortization (Deferral) tariffs under Dockets UG-041566 and UG-041565, respectively. The combined effect of these two filings is an increase in annual gas sales revenues of approximately \$121.7 million (17.6 %).

The Purchased Gas Adjustment (PGA) and Gas Cost Deferral Amortization mechanisms are designed to pass on actual gas costs to customers on a periodic basis. The PGA establishes for the upcoming year what the best projection is going to be for the utility's gas costs. The difference between the projected gas cost and the actual gas cost is deferred in 191 account. The deferred balance in the 191 account ultimately gets amortized back to customers with interest, whether it be a refund (over-recovery) or surcharge (under-recovery).

PSE, a combined electric and natural gas utility company, serves approximately 583,439 residential, 50,109 commercial and industrial, and 134 transportation customers in Snohomish, King, Pierce, Thurston, Lewis, and Kittitas counties.

**Purchase Gas Adjustment (PGA, Docket UG-041566)**

Docket UG-041566 is PSE's PGA filing. PSE filed tariff sheets to reflect a prospective total weighted average cost of gas (WACOG) of \$0.63517/therm (\$0.55642 commodity + \$0.07876 demand) resulting in an increase in annual revenues of approximately \$101.6 million (14.7%), for the period October, 2004 through September, 2005. Currently embedded in PSE natural gas retail rates is a total average weighted cost of gas of

\$0.52124/therm (commodity cost of \$0.42243/therm and \$0.09881 demand/therm). All of the proposed increase is due to the higher market price for natural gas supplies (commodity costs). This higher commodity cost is also slightly offset by the decreased demand cost because two contracts will be expired on November 1, 2004. PSE's commodity WACOG of \$0.55642 per therm is in line with other regulated gas company's proposed commodity WACOGs filed in Washington and Oregon.

### **Gas Cost Deferral Amortization (Docket UG-041565)**

Docket UG-041565 is PSE's Deferral filing. This filing reflects the true-up of actual costs to revenue collected from October, 2003 through September, 2004, including estimates for July through September, 2004. PSE estimates the deferred balance in the 191 account will be approximately \$20.68 million of under-recovery at the end of September, 2004. The Company is proposing to transfer approximately 9.6 million of the total current under-recovery (\$20.68 million) for amortization to reflect the cyclical nature of demand gas cost recoveries. The Company believes the remaining balance of demand costs (\$11 million) will be recovered under this proposed PGA rates over the next 12 months. Currently PSE is refunding approximately \$10 million of over-recovery under existing deferral rates for the twelve-month period ending September, 2004. In this filing PSE proposed to discontinue refunding customers for the prior year over-recovery and start a surcharge for current under-recovered deferral balance. This filing will result in a net increase of approximately \$20 million in annual revenue (2.9%).

#### Summary:

The impact of the PGA and gas cost and deferral amortization (surcharge) filings on a monthly bill for a residential customer with consumption of 80 therms will be an increase of \$11.90 (16.7%). The net effect on these two filings for the Company's rates and annual revenues is as follows:

	PGA Per Therm <u>Change</u>	Surcharge Per Therm <u>Change</u>	Total Annual Revenue <u>Change</u>	<u>Percent</u>
Residential				
Schedule 23	\$0.12386	\$0.02491	\$74,127,320	16.7%
Schedule 16	0.13000	0.02460	3,243	15.9%

	PGA Per Therm <u>Change</u>	Surcharge Per Therm <u>Change</u>	Total Annual Revenue <u>Change</u>	<u>Percent</u>
Comm.& Industrial				
Schedule 31,36, and 51	\$ 0.12602	\$0.02481	\$29,082,164	18.7%
Schedule 41	0.13470	0.02439	7,815,908	21.8%
Schedule 50	0.13865	0.02421	8,891	24.4%
Interruptible				
Schedule 85	\$ 0.13054	\$0.02459	\$ 2,232,563	24.6%
Schedule 86	0.13054	0.02459	3,438,254	21.5%
Schedule 87	0.13661	0.02430	<u>4,943,200</u>	<u>29.9%</u>
Total			\$121,651,543	17.6%

Conclusion:

Staff has reviewed the Company's prospective gas costs and deferral accounts and found them reasonable. Staff recommends the Commission allow the filings in Docket UG-041565 and UG-041566 to become effective October 1, 2004, by operation of law.